

# *U.S. Embassy - Skopje*

## **ECON NEWSLETTER 9/2003**

### **THE WORLD BANK APPROVED THE STRATEGY FOR ASSISTANCE TO MACEDONIA**

On September 8, the Board of Directors of the World Bank approved the new strategy for assistance to Macedonia in the period 2004- 2006, which includes projects worth total of US\$ 165 million. The strategy includes the planned operations of the Bank in the country: structural and investment loans, the economic and sectoral studies and the technical assistance.

"In spite of the crises in 1999 and in 2001, which seriously obstructed the development of the state, obvious progress has been achieved in the economic reforms. This includes the progress in the financial sector and, to some extent, in the management with the public funds," reads the announcement from the World Bank Office in Skopje.

The announcement points out that main economic challenges for the future are still the improvement of the management in the public sector, especially the strengthening of the transparency and efficiency of the public expenditures and the professionalization of the public administration. Crucial for the future development will be the efforts for improving the investment climate in the country for attracting foreign direct investments.

The strategy also foresees opening of new jobs in the private sector, as well as building up human capital and protection of the most vulnerable categories of citizens.

### **PARLIAMENT ADOPTS BUDGET REBALANCE**

The Parliament adopted the rebalance of 2003 budget and the law on 2003 budget execution and limitation as well as the law on source revenues for financing public needs for 2003.

Addressing the Parliament, Minister of Finance Petar Gosev said the rebalance of 2003 budget was aimed at reduction of its deficit and maintenance of the

macroeconomic policy in this and the next year. According to the new budget, the total amount of expenditures is Denar 59.2 billion, i.e. cut by Denar 0.1 billion compared to the projected budget. The revenues are Denar 55.8 billion (Denar 0.6 billion more than the original plan), while the budget deficit is expected to be Denar 3.4 billion - 1.4 percent of the Gross Domestic Product. Compared to the original projection, the deficit will be reduced by Denar 0.7 billion.

### **THREE WORLD BANK SCENARIOS FOR ASSISTING MACEDONIA**

The World Bank (WB) Strategy for assisting Macedonia in the next three years offers three scenarios for supporting projects in the country. According to the most favorable scenario, Macedonia will get US\$ 165 million for realization of nine projects, if it meets certain conditions, such as completing the economic reforms, maintain solid macroeconomic performance, transparent and responsible public procurement, political and governmental stability. The second scenario foresees an assistance of US\$ 90 million, while the third and most unfavorable offers only US\$ 20 million.

"The Government is ready to meet the conditions for the most optimistic scenario. The condition for political and governmental stability is met despite the incidents," Minister of Finance Gosev said, adding that recent developments in regard to arresting criminals have shown that people are against conflicts and do not allow to be taken in by cheap quasi-patriotic stories and ideas. The WB representatives to Macedonia presented a report on unemployment and labor market in Macedonia. According to analyses, the unemployment rate is one of the country's major problems.

### **DECLARATION FOR INVESTING IN CORRIDOR 8 PROJECTS SIGNED IN BARI**

Ministers of transport of Albania, Bulgaria, Macedonia, Greece, Italy and Turkey signed in Bari, Italy a Declaration for new investing mechanisms in the Trans-European Corridor 8. Projects will be funded by the European Investment Bank (EIB). "EIB expressed readiness to create new investing mechanisms for this network, which will enable long-term loans up to 35 years, while the expenditures for the Corridor projects will be covered up to 75 percent," Macedonian Ministry of Transport and Communications announced in a press release.

## **RUSSIA AND FORMER YUGOSLAVIA SUCCESSOR COUNTRIES SIGNED MEMO ON DEBT SETTling**

Russia and the successor countries of former Yugoslavia (Macedonia, Serbia & Montenegro, Slovenia, Croatia and Bosnia & Herzegovina) signed an agreement in Moscow on settling the former USSR debt to the former Yugoslavia. According to the document, Macedonia should get 7.5 percent of the total debt, i.e. over 95 billion clearing dollars. Russian Deputy Minister of Finance Sergei Kolotukhin said the agreement covered the debt worth 1.292 billion clearing dollars.

## **DUTCH GOVERNMENT TO GRANT ADDITIONAL EURO 23 MILLION TO MACEDONIA**

Macedonian Finance Minister Petar Gosev and National Bank Governor Ljube Trpeski met in Dubai with Dutch Minister of Development Cooperation Agnes van Ardenne within the World Bank and International Monetary Fund Annual Assembly. At the meeting, Ardenne announced additional Euro 23 million in aid to Macedonia, of which 17 million in support of the balance of payment and six million for financing special programs on management and development of the private sector.

The officials also discussed the current economic and political situation in Macedonia, and the country's progress in meeting the obligations from the IMF arrangement. Ardenne said the Netherlands was ready to keep supporting the development of Macedonia, pointing out the importance of the Balkan development and cooperation. The Netherlands was particularly interested in supporting those processes, she said.

## **GOVERNMENT PUTS MACEDONIAN-CANADIAN POSTS AGREEMENT IN STATE OF REST**

The Macedonian-Canadian Posts Agreement on joint project for providing post and banking services in Macedonia is put aside, Macedonian Government decided at its regular session. The Agreement will have no legal effect if the positions of both sides remain unchanged after a one-year term, the government's decision reads.

Discussing the report on the course of the negotiations, it was pointed out that the differences over the agreement should not be connected with the good diplomatic ties of both countries. Macedonia would service its debt to the "Canadian Post".

## **PROJECT OF FREE ECONOMIC ZONE "BUNARDZIK" PRESENTED**

Free Economic Zones Directorate together with experts of the consulting companies Lion's Bridge and Grant Thornton presented the project of Free Economic Zone "Bunardzik" at the Macedonian Government building. "The presentation is an encouragement for the project but at the same time means a great responsibility for its realization. The project is not new, but the way of how it should be carried out is completely new. International tender for seeking new investors is to be launched soon.

"This time I expect to gain investor who will enable opening of this zone," Minister of Economy Ilija Filipovski said at the presentation, which was attended by foreign diplomats to the country. He said that the development of the free economic zones will increase the direct foreign investments in Macedonia, will encourage the economic development and will decrease the unemployment rate.

According to the Law on Free Economic Zones, the Free Economic Zones Directorate is responsible for planning and development. In accordance with the Law the land of the free zones can be leased to foreign investors for a period of 50 years with a possibility for extension of another 25 years. For the users of the free zone besides the duty free treatment, there are tax incentives and tax exemptions. During the first ten years neither property tax nor profit tax should be paid in the zone.

"Experiences from the neighborhood show that European and world respectable companies invest in the free economic zones in the region. Strong motive exists this zone to be established and to function due its strategic position, its placement on crossroad of Corridors 8 and 10, near the international Airport Petrovec and the qualified workers," Viktor Delov, Deputy Director of Free Economic Zones Directorate, said.

James Duet, Head of the experts team that prepares the tender for Bunardzik, hopes that till the end of December, the investor will be chosen and during the next year the free economic zone will begin to work. Donato Chiarini, Head of Delegation of the European Commission to Macedonia, said that the opening of the free economic zone would help the attraction of foreign investments in Macedonia. This will stimulate the development of the private companies, which is an important factor in Macedonia's approach to EU, Chiarini said.

## **AGROEXPO AND ALTRAVAL AT SKOPJE'S FAIR**

Two fair's manifestations AGROEXPO and ALTRAVITA were held at Skopje fair from September 30 to October 4 2003. The International fair of alternative medicine, environment protection, healthy food, paranormal capabilities and recreation sports, ALTRAVITA was held under motto "Life with the Nature - Health for Everyone". Participants presented their methods and therapies, massages and products in this area. The fair also included round tables, studies and presentations. Minister of Environment and Urban Planning Ljubomir Janev opened the fair on September 29.

At the 44<sup>th</sup> AGROEXPO, 230 representatives from Macedonia and abroad took part. It showed accomplishments in the areas of agricultural primary production and processing.

## **MACEDONIA AND ITALY SIGNED MEMO FOR COOPERATION OF SMALL AND MEDIUM COMPANIES**

Trade and investment cooperation between Macedonia and Italy does not correspond with the existing potential, Macedonian Minister of Economy Ilija Filipovski and Italian Deputy Minister of Production Activities Adolfo Urso said on September 29. Macedonia and Italy signed a Memorandum of understanding today, aimed at improving the cooperation of small and medium companies, Filipovski said, expressing belief that Italian companies will be more present in southeastern Europe.

Urso said that Italian companies were interested in shoemaking, textile and food industry, as well as tourism. "Italy - as current holder of the European Union Presidency - fully supports Macedonia in its efforts to conduct necessary reforms for the EU membership, " Urso said, expressing hope that the country's aspiration will soon become reality. Urso, along with 40 Italian businessmen and representatives of institutions for supporting the private sectors, attended the Macedonian-Italian Economic Forum in Skopje.

## **SWISS DONATION FOR INCREASING ESM EFFICIENCY**

The Swiss Government granted 12.5 million francs (7.5 million euros) for increasing the efficiency in the distribution activities of ESM, Macedonia's electric power company. The assistance will consist of equipment and education. In addition 7,000 gauges of 7 million francs will be delivered, 530 of which will be used for

interconnection probing of the Macedonian production facilities and for the large industrial facilities falling under the category of direct consumers.

This is very important in driving a wedge between production and distribution as part of the foreshadowed reorganization of the company. The other gauges are digital and will be destined for the smaller industrial facilities. Thus, a completely new integrated system will be obtained for measuring, which would reduce losses.